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TD Economics

Data Release: Fed remains relatively upbeat on outlook despite economy finishing 2015 near stall-speed

- The Federal Open Market Committee (FOMC) appeared relatively less upbeat in the current assessment of the economy, though the outlook held steady.
- In the statement the Committee suggested that "growth slowed late last year" (previously quantified as growing at moderate pace) with consumption and business investment "increasing at moderate rates" (prev. solid). Nonetheless, the Committee believes that in light of the gradual tightening cycle, activity will expand "at a moderate pace".
- The Committee acknowledged that "labor market conditions improved further" with the pace of job gains "strong" and leading to "additional decline in underutilization". There was a similar reference in the previous statement.
- As far as inflation, the FOMC expects it to remain "low in the near term" partly due to energy prices, but rebound to 2 percent over the medium-run. The FOMC viewed market-based measures as having declining further, while survey-based measures were qualified as little-changed.
- International developments came back to the forefront in the statement, with the Committee highlighting that it will monitor economic and financial events globally – presumably for any potential downside risks.
- The committee cut down substantially the paragraph on policy decision, indicating only that the current economic outlook justifies the maintenance of the policy rate at the 0.25% to 0.50% range – a stance considered accommodative. The FOMC also left the policy guidance paragraph unchanged, sticking to the "gradual" notion of future rate hikes as expected.

Key Implications

- Today's statement came in largely as expected, given the economic data and global volatility as of late. Aside for the tweaks to current conditions and reappearance of the international dimension, most of the statement was broadly unchanged with the Fed remaining relatively upbeat and confident that the recent slowdown is merely transitory – a view we also subscribe to.
- This statement was a little leaner on words. Much of the reduction was in the form the Committee's justification of its policy decision vis-à-vis the outlook and potential risks. This lack of verbiage may suggest some uncertainty on behalf of the Committee, with the Fed punting to investors to read the economic data tea leaves for themselves.
- At this point, the odds of a March hike are reduced, but it cannot yet be completely ruled out just yet. However, for it to materialize, we would likely need to see a stabilization of international sentiment, alongside some upside data surprises, particularly in terms of employment and inflation-related pressures, such as wages. In addition, with the Fed decisions increasingly data dependent, economic releases alongside speeches over the coming weeks will be material in providing market guidance. Yellen in particular has this opportunity on February 10th to guide sentiment, after the anticipated January payrolls report.

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